

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 ABF-01 AGRE-00
SEC-01 NSC-05 SS-15 STR-07 CEA-01 /119 W
-----114186 210256Z /73

R 201205Z APR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6119
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREAS AND FRB

E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK APR 9-15

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC WAS
FIRMER DESPITE MID-WEEK FLUCTUATIONS; GOLD PRICE WAS
STABLE. SWISS NATL BANK EXPRESSED SATISFACTION WITH
MORE STABLE EXCHANGE RATES. INTEREST RATES DECLINED.
INVESTOR CONFIDENCE IN US APPEARS TO BE IMPROVING.
SOCIALISTS PUBLISHED BANK INITIATIVE TEXT. FED
BANKING COMMISSION ISSUED ANNUAL REPORT. FIRESTONE
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DEVELOPMENTS REMAINED FOCUS OF ATTENTION. ECONOMIC
INDICATORS SHOWED CONTINUED GROWTH. END SUMMARY

2. FOREX AND GOLD:
A) OPENING AND CLOSING RATES FOR DOLLAR AGAINST
SF WERE UNCHANGED DESPITE MID-WEEK FLUCTUATIONS.
DEALERS ATTRIBUTED DOLLAR DECLINE TO DISAPPOINTMENT

WITH US ANTI-INFLATION MEASURES; RECOVERY STEMMED FROM ACCUMULATED COMMERCIAL DEMAND AND BANKS COVERING POSITIONS. DEALERS EXPECT DOLLAR TO SHOW IMPROVEMENT BUT EXPRESS CAUTION.

B) SNB ENFORCING MEASURES TO CONTROL CAPITAL INFLOWS; NULLIFIED FOREIGN CENTRAL BANK TRANSFERS OF THEIR SF HOLDINGS TO THEIR EMBASSIES' ACCTS IN SWITZERLAND. BANKS CONTINUE TO ACCEPT LARGE FOREIGN BANKNOTE DEPOSITS IF THEY DO NOT VIOLATE TERMS OF LAST YEAR'S GENTLEMAN'S AGREEMENT; DO NOT QUESTION WHETHER ENTRY PRE-DATES RULE AGAINST LARGE IMPORTS. GENEVA BANKERS EXPRESSED VIEW THAT STRONG FRANC HAS BEEN BENEFICIAL BY KEEPING INFLATION DOWN, ESPECIALLY EXPORT PRICES; THEREBY FACILITATING STRUCTURAL ADJUSTMENTS.

C) GOLD PRICE WAS RELATIVELY STABLE DESPITE DECLINE ON US FUTURES/OPTIONS MARKET AND IN HONG KONG. EXPECTATIONS OF US TREAS SALES, DESPITE DENIALS, WAS IMPORTANT FACTOR FOR LOW PRICE. SOVIETS REDUCED OFFER. DEMAND WAS LARGELY FROM DEALERS. DEMAND FROM INDUSTRY, HOARDING AND SPECULATORS WAS DOWN. DEALERS EXPECT FURTHER PRICE DECLINE. RATES FOLLOW:

4/10 (OPEN) 4/14 (CLOSE)

SPOT DOLLAR 1.8750 1.8755

FORWARD DISCOUNTS

(PCT PER ANNUM)

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ONE MONTH	7.25	6.78
TWO MONTHS	7.12	7.01
THREE MONTHS	7.10	6.93
SIX MONTHS	7.07	6.96
TWELVE MONTHS	6.61	6.15
SF/DM	92.60	92.45
GOLD	178.50	178.25

3. SNB VIEWS:

A) SNB VP SCHUERMAN SAID SWISS ARE PLEASED WITH MORE STABLE EXCHANGE RATES SINCE BAN ON SALES OF SWISS SECURITIES TO NON-RESIDENTS, BUT DM RATE IS STILL LOW. STABLE RATES WOULD ENABLE SWISS GNP ACHIEVE 2 PCT 1978 GROWTH. FLOATING EXCHANGE RATES PERMIT MORE AUTONOMOUS MONETARY POLICY AND LOWER INFLATION. HOWEVER, LOWER SF EXCHANGE RATE COULD BE ACHIEVED ONLY AT EXPENSE OF INCREASED INFLATION. SHORT TERM INTEREST RATE RISE MAY RESULT FROM ANTI-INFLATION POLICY DURING ECONOMIC UPTURN.

B) SCHUERMAN SAID SNB 1978 FOREX MARKET INTERVENTIONS SO FAR TOTAL \$2.3 BILLION OFFSET BY \$2.1 BILLION CAPITAL EXPORT CONVERSIONS. MONEY SUPPLY

WAS UP 7.3 PCT END JAN AND 10 PCT END FEB ON YEAR
TO YEAR BASIS, COMPARED 5 PCT 1978 AVERAGE GROWTH
TARGET. SNB IS FOLLOWING LIBERAL MONETARY POLICY
FOR EXCHANGE RATE PURPOSES BUT DISCOUNTS INFLATION
DANGER BECAUSE OF WEAK DOMESTIC CREDIT DEMAND. SNB
COULD STILL MEET 1978 TARGET. NET 1977 INTERVENTION
PURCHASES WERE SF 4 BILLION AND M1 GREW 5.4 PCT
COMPARED TARGETED 5 PCT.

4. I

VITJB AND MONEY MARKETS:

AJQIPSTOCK PRICES WERE GENERALLY STEADY IN LIGHT
TURNOVER. SKA SHARE INDEX EDGED UP TO 245.6. BROKERS
EXPECT SLIGHT SWISS MARKET IMPROVEMENT LED BY US
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MARKET UPTURN. DEMAND FOR FIXED YIELD LONG-TERM
INVESTMENTS ROSE. AVERAGE YIELD CONFEDERATION BONDS
FELL TO 3.38. SAMPLE YIELD ON 15 YEARBOND ISSUES:
CREDIT SUISSE SF 210 MILLION AT 3.25 PCT; IDB SF 80
MILLION AT 4.25 PCT; VAUD CANTON BANK SF 30 MILLION
AT 3.5 PCT; RENAULT HOLDING AT 4.25 PCT. THREE LARGEST
BANKS APR 12 REDUCED INTEREST RATE TO 0.75 PCT FOR
ONE YEAR TIME DEPOSITS AND TO 0.5 PCT FOR DEPOSITS
3 TO 11 MONTHS.

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PASS TREAS AND FRB

B) SWISS BANKS SAID THEY CONTINUE TO RECOMMEND
US INVESTMENTS; BELIEVE IMPROVED DOLLAR EXCHANGE RATE
MAY ENCOURAGE RENEWED INVESTMENTS IN US. STRESSED
US GROWTH POTENTIAL AND POLITICAL STABILITY PROVIDE
BEST INVESTMENT MARKET FOR LONGER TERM. SWISS
DIRECT INVESTMENT IN US WAS \$2.28 BILLION TOTAL
BOOK VALUE END 1976, \$1.36 BILLION IN PRODUCTION
FACILITIES. RECENT TAKEOVERS, EXPANSION OF EXISTING
PLANTS AND INVESTMENT PLANS IN US FOR COMING YEARS
BY SWISS FIRMS INDICATE CONFIDENCE IN US WHERE LABOR
AND PRODUCTION COSTS FACTORS PRESENT ADVANTAGE OVER
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SWITZERLAND. HOWEVER, SWISS BANK CORP "BUY LIST"
CONTINUES TO URGE CAUTION RE US SECURITY INVESTMENTS;
SAID GOOD US ECONOMIC OUTLOOK IS CLOUDED BY EXPECTED
SECOND HALF DOWNTURN AND UNCERTAINTY ABOUT US TAX,
ENERGY AND ANTI-INFLATION MEASURES.

5. BANKING: SOCIALISTS PUBLISHED TEXT OF THEIR BANK
SECRECY INITIATIVE; PARTY CONGRESS WILL VOTE ON IT
IN MAY. BANK SECRECY WOULD BE LIFTED FOR TAX AND
FOREIGN EXCHANGE MATTERS. WOULD REQUIRE: (A) BANKS
AND FINANCIAL INSTITUTIONS FURNISH INFO ON ACCOUNTS
TO SWISS AUTHORITIES WHO COULD GIVE IT TO FOREIGN
INVESTIGATORS FOR TAX EVASION AND FOREX RULE
VIOLATIONS; (B) BANKS' TRANSACTIONS, HIDDEN RESERVES,
HOLDINGS IN OTHER INSTITUTIONS AND ACTIVITIES
OUTSIDE SWITZERLAND TO BE IN ANNUAL REPORTS; (C)
SNB AND BANK COMMISSION ANNUAL REPORT TO PARLIAMENT
ON OVERALL BANK RISKS AND INDEBTEDNESS; (D) DEPOSIT
INSURANCE.

6. FED BANKING COMMISSION: FBC ISSUED 1977 REPORT.
SWISS BANKS WILL BE ASKED FOR FIRST TIME TO SUBMIT
CONSOLIDATED BALANCE SHEETS TO FBC; GUIDELINES HAVE
BEEN SENT TO BANKS. FBC WILL PROPOSE GOVT CHANGE

RULES COVERING PRESCRIBED RATION OF SHAREHOLDER EQUITY
TO TOTAL ASSETS TO BETTER REFLECT BANKS' STRUCTURE.
FBC DECIDED WITH SNB AGAINST CREATING SPECIAL
INDEPENDENT BANK EXAMINING UNIT. REPORT
REVIEWED FBC ACTIVITIES RE SEVERAL BANKING PROBLEMS,
NOTABLY CREDIT SUISSE CHIASSO SCANDAL; SAID CS
INTERNAL AUDITS HAD SERIOUS LACUNAE WHICH ENABLED
CHIASSO IRREGULARITIES CONTINUE FOR YEARS. NOTED
WEISSCREDIT BANK NEVER PUBLISHED ACCTS AND WAS NEVER
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AUDITED.

7. FIRESTONE: SWISS DEL WENT TO US; REPORTED JOINT
WORKING GROUP WAS ESTABLISHED TO STUDY SWISS PROPOSAL
TO KEEP TIRE PLANT OPEN. SEVERAL EDITORIALS CRITICIZED
FED COUNCILOR HONEGGER'S EFFORTS TO KEEP PLANT OPERATING
IN LIGHT OF WHAT FED GOVT COULD DO GIVEN ECONOMIC
REALITIES; SAID AT MOST GOVT ACTION SHOULD BE AT
CANTONAL LEVEL. SWISS LABOR PROTESTED FIRESTONE
CLOSURE IN OECD; SAID DECISION DID NOT CONFORM TO
OECD CODE REQUIREMENT TO KEEP EMPLOYEES INFORMED.
SAID FIRESTONE MANAGEMENT REFUSED TO NEGOTIATE WITH
LABOR DURING PAST FEW YEARS.

8. ECONOMIC INDICATORS: SWISS FOREIGN TRADE
REGISTERED SF 499.9 MILLION DEFICIT IN FIRST QUARTER
1978, 15 PCT BELOW SAME PERIOD 1977; IMPORTS WERE UP
11.2 PCT WHILE EXPORTS SLIPPED 4.8 PCT IN REAL TERMS.
UNEMPLOYMENT DECLINED TO 11,179 END MAR, 0.4 PCT OF
LABOR FORCE. WHOLESALE PRICE INDEX FELL 0.2 PCT IN
FEB, DOWN 3.5 PCT ON YEAR BASIS. RESULTS OF UNION
BANK OF SWITZERLAND SURVEY INDICATED SWISS INDUSTRIAL-
ISTS ARE GENERALLY OPTIMISTIC FOR INCREASED PRODUCTION
IN SECOND QUARTER 1978 COMPARED FIRST QUARTER AND
SECOND QUARTER 1977; MANY PLAN PRICE CUTS TO MAINTAIN
EXPORT COMPETITIVENESS.
WARNER

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